

Global Sovereign Credit Risk Report

1st Quarter 2010

Europe & Asia

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Data: Methodology and Definitions

This paper focuses on changes in the risk profile of sovereign debt issuers, with the intention to identify trends and drivers of change.

We have divided world debt risk into eight regions: US & UK, Western Europe, Emerging Europe, Scandinavia, Latin & South America, Middle East & Africa, Australasia and Asia. In addition to identifying themes within each of these regions, macro trends across the sovereign debt sector are also discussed.

CDS Values are calculated by CMA Datavision – an independent CDS pricing service based on data collected from CMA’s consortium of over 30 swap market participants. CMA Datavision is the only CDS pricing service to provide independent, intraday price verification for single name CDS, indices and tranches. Unless otherwise stated, all CDS values will be the midpoint on the 5 year tenor and are based on London closing values from 30th March, 2010.

Cumulative Probability of Default (CPD) quantifies the probability of a country being unable to honour its debt obligations over a given time period. Unless otherwise stated, all stated values are for the 5 year CPD. CPD is calculated using an industry standard model fed with proprietary credit data from CMA Datavision.

Implied Ratings are calculated using a proprietary model developed by CMA and fed with CDS pricing data from CMA Datavision.

Data Access: CMA provides independent, intra-day pricing on over 1,500 single name CDS and CDS Indices. Widely used by risk managers, treasurers and researchers in financial institutions across the world, CDS data is available directly from CMA or via our strategic partners. For more information about how CMA can help you get a clear picture of credit risk please contact us via info@cmavision.com

Changes in CMA Sovereign Debt Coverage

Deletions:

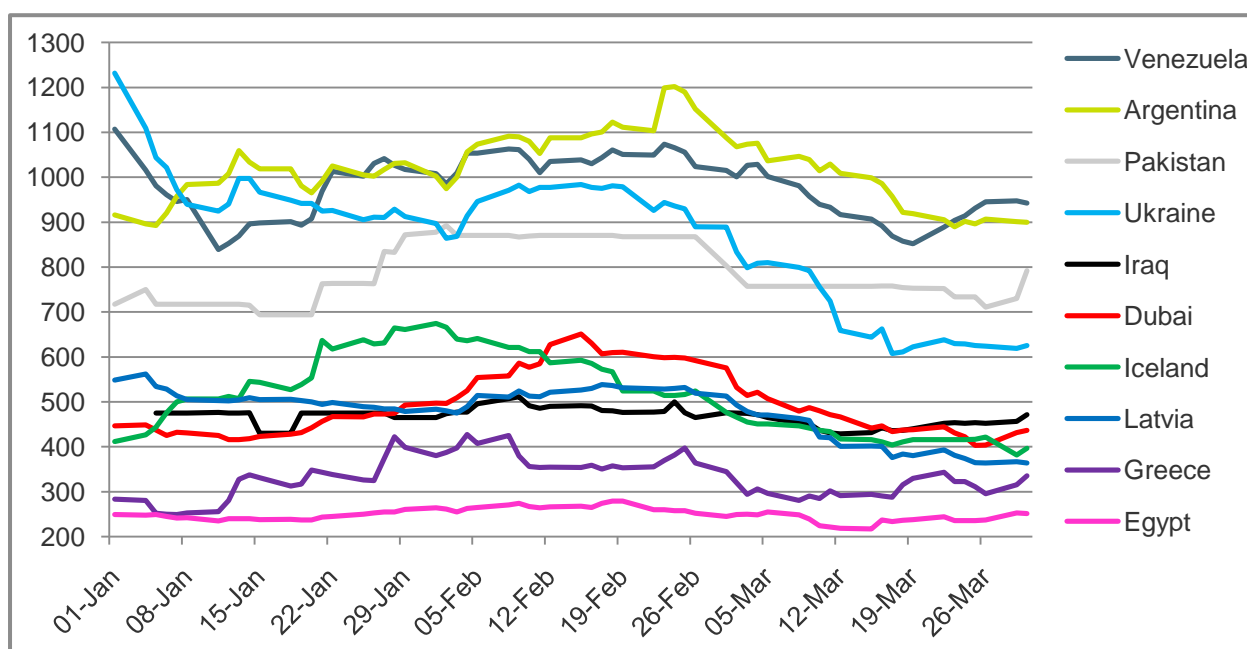
No deletions to our sovereign coverage this quarter.

Additions:

This quarter, CMA has seen sufficient liquidity to provide pricing on CDS referencing Iraqi and El Salvadorian sovereign debt

The World's Riskiest Sovereign Debt

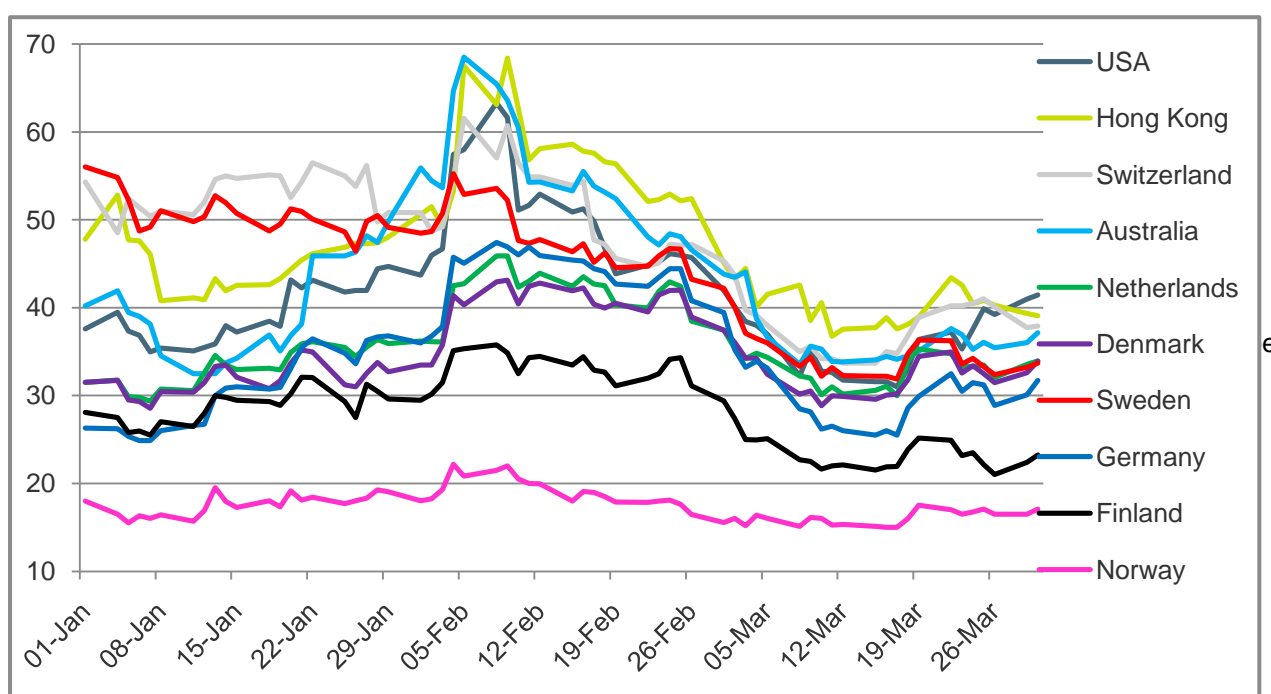
| Position Q1 | Country | 5 Year CPD (%) | CMA Implied Rating | 5 Year CDS Mid (bps) | Previous Ranking |
|-------------|-----------|----------------|--------------------|----------------------|------------------|
| 1 | Venezuela | 48.5% | CMA_ccc+ | 944.6 (16.4% UF) | 1 (No Change) |
| 2 | Argentina | 46.0% | CMA_ccc+ | 898.4 (15.2% UF) | 3 (Down 1) |
| 3 | Pakistan | 42.3% | CMA_b- | 791.9 | New Entry |
| 4 | Ukraine | 35.4% | CMA_b | 624.2 | 2 (Up 2) |
| 5 | Iraq | 28.9% | CMA_b+ | 471.8 | New Entry |
| 6 | Dubai | 26.6% | CMA_b+ | 436.1 | 6 (No Change) |
| 7 | Iceland | 23.3% | CMA_bb- | 386.5 | 5 (Up 2) |
| 8 | Latvia | 22.8% | CMA_bb- | 365.6 | 4 (Up 1) |
| 9 | Greece | 25.4% | CMA_bb- | 335.9 | 10 (Down 1) |
| 10 | Egypt | 16.5% | CMA_bb | 251.5 | New Entry |



- A great deal of change in the riskiest 10 this quarter- Lithuania, Lebanon and Romania are out of the top ten, replaced by Pakistan, Egypt and Iraq.

The World's Safest Sovereign Debt

| Position Q1 | Country | 5 Year CPD (%) | CMA Implied Rating | 5 Year CDS Mid (bps) | Previous Ranking |
|-------------|-------------|----------------|--------------------|----------------------|------------------|
| 1 | Norway | 1.6% | CMA_aaa | 17.3 | 1 (No Change) |
| 2 | Finland | 2.1% | CMA_aaa | 23.0 | 3 (Up 1) |
| 3 | Germany | 2.8% | CMA_aaa | 31.6 | 2 (Down 1) |
| 4 | Sweden | 3.0% | CMA_aaa | 33.3 | New Entry |
| 5 | Denmark | 3.0% | CMA_aaa | 33.9 | 6 (Up 1) |
| 6 | Netherlands | 3.0% | CMA_aaa | 34.2 | 5 (Down 1) |
| 7 | Australia | 3.3% | CMA_aaa | 37.1 | 8 (Up 1) |
| 8 | Switzerland | 3.4% | CMA_aaa | 37.8 | 10 (Up 2) |
| 9 | Hong Kong | 3.4% | CMA_aaa | 39.1 | New Entry |
| 10 | USA | 3.6% | CMA_aaa | 41.1 | 7 (Down 3) |

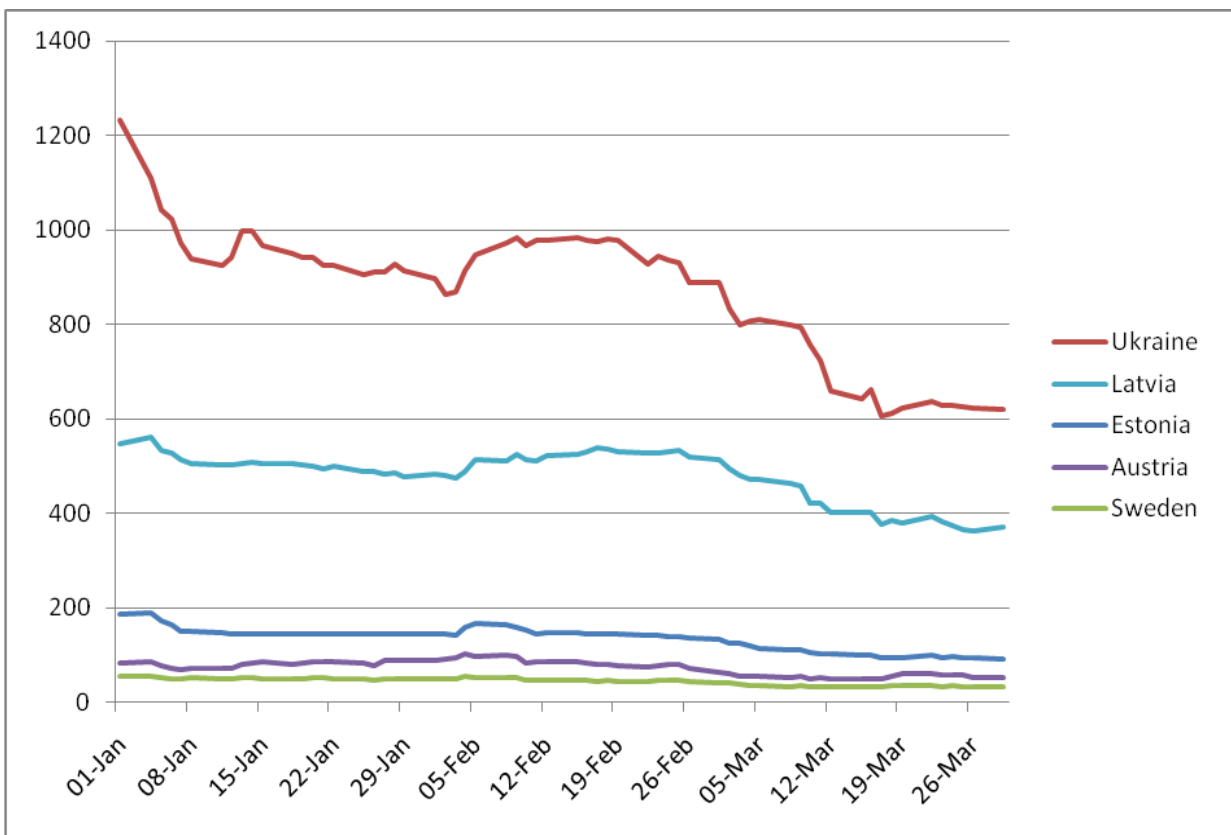


- The lowest default risk remains geographically concentrated around Western and Northern Europe
- France and Belgium are out of the Top 10 safest issuers, replaced by Sweden and Hong Kong

Best Quarterly Performance

Greatest Improvement

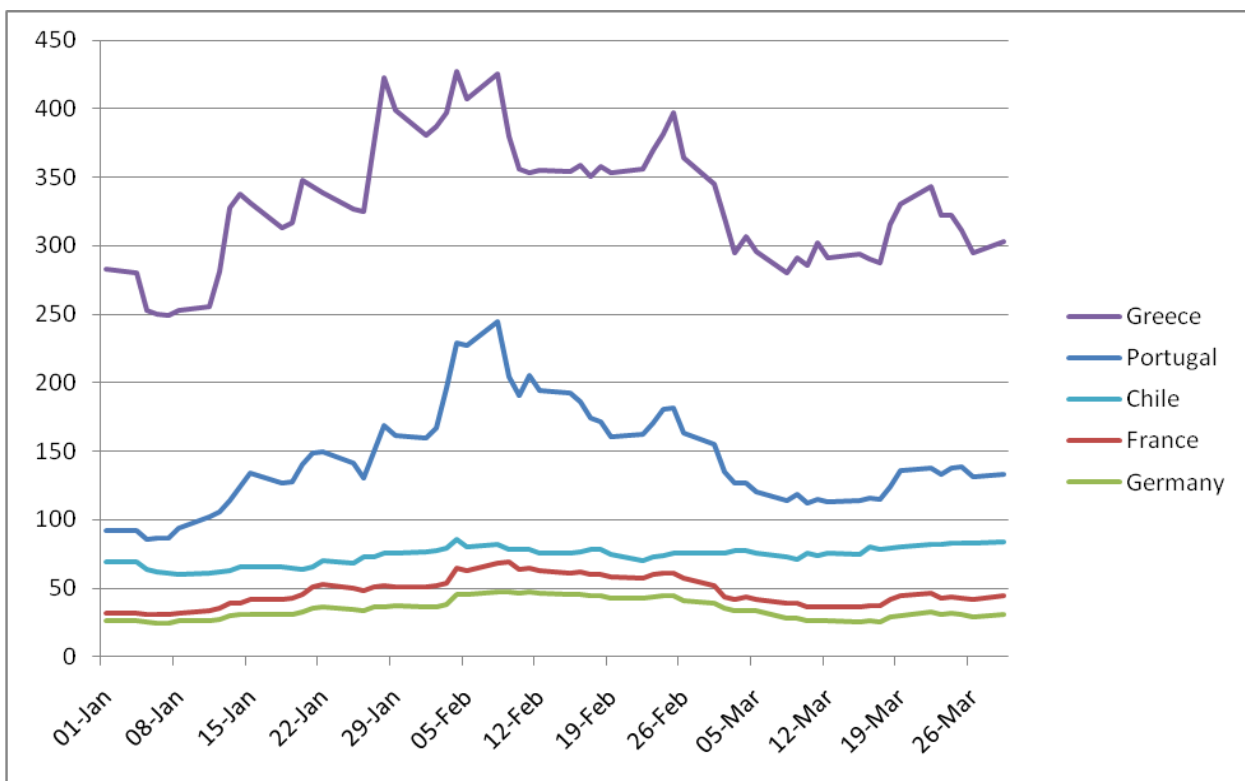
| Country | 5yr Mid 1 st January bps | 5yr Mid March 30th bps | Change % |
|---------|--|---------------------------|----------|
| Estonia | 186.3 | 91.4 | -50.9 |
| Ukraine | 1232.1 (24.4% UF) | 624.2 | -49.3 |
| Sweden | 56.0 | 33.3 | -40.5 |
| Austria | 84.0 | 55.3 | -34.2 |
| Latvia | 548.3 | 365.6 | -33.3 |



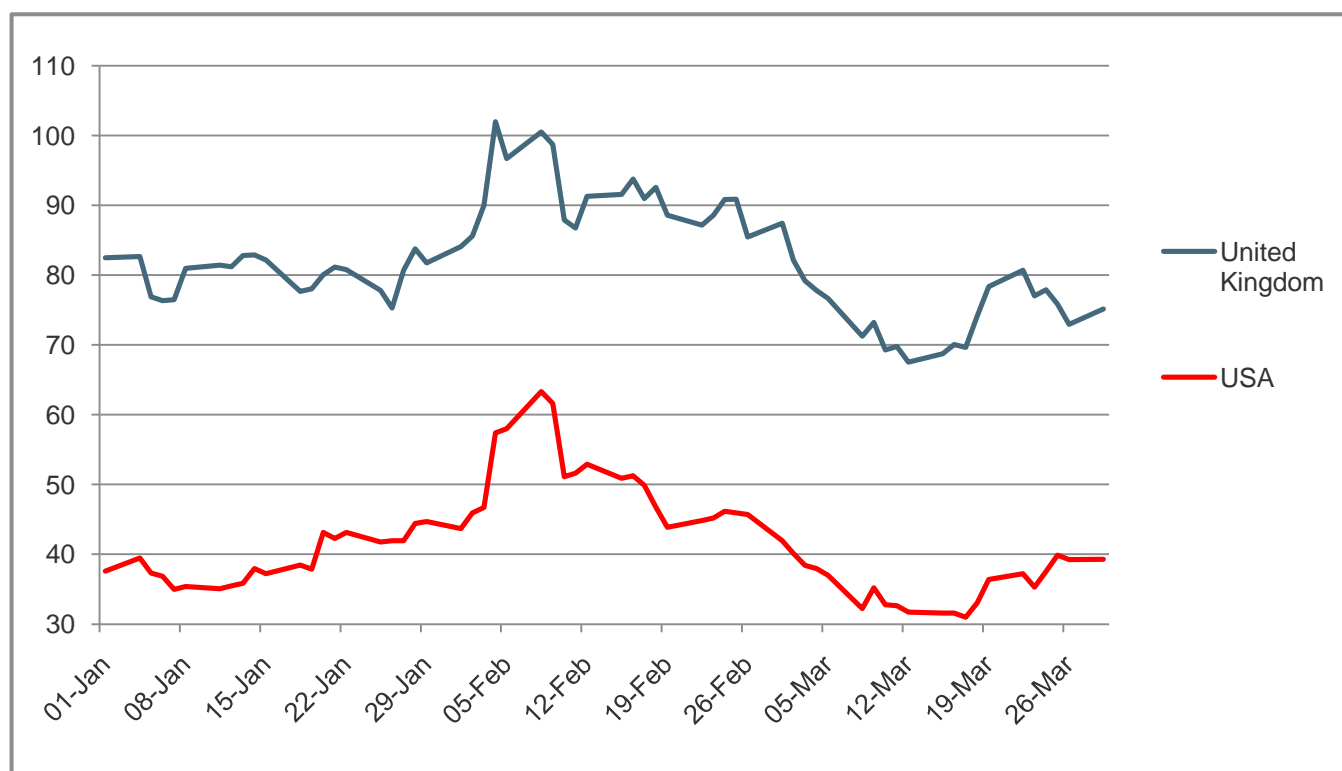
Worst Quarterly Performance

Greatest Deterioration

| Country | 5yr Mid 1 st January bps | 5yr Mid March 30th bps | Change % |
|----------|--|---------------------------|----------|
| Portugal | 91.7 | 139.6 | 52.3 |
| France | 32.1 | 47.1 | 46.7 |
| Germany | 26.3 | 31.6 | 20.1 |
| Greece | 283.4 | 335.9 | 18.5 |
| Chile | 69.3 | 80.2 | 15.8 |



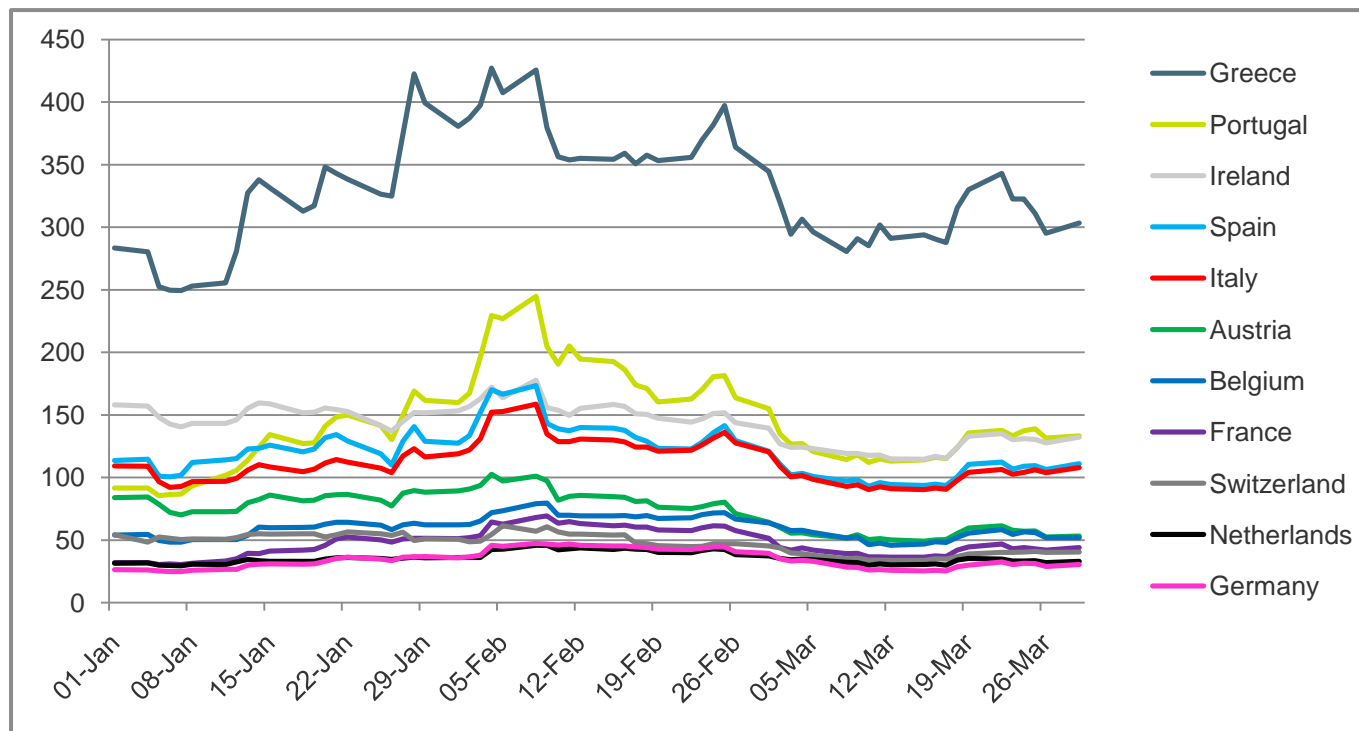
Regional Focus: UK & USA



Notes

- The U.S. has performed weakly again this quarter – wider by 9.4% since the start of the year. The U.K has improved slightly, tighter by 6.6%
- The U.S CDS has widened slightly since the successful passing of the healthcare bill in the U.S.A. which commits the government to significant investment in health infrastructure and services.
- The U.K.'s AAA credit rating is under scrutiny by the main rating agencies as it attempts to bring public spending under control. The market implied rating is CMA_aa.
- The pre-election budget in the U.K. held few surprises for the credit markets, with little effect on the CDS
- Both the U.S. and the E.U. have suggested banning naked shorts on sovereign CDS.

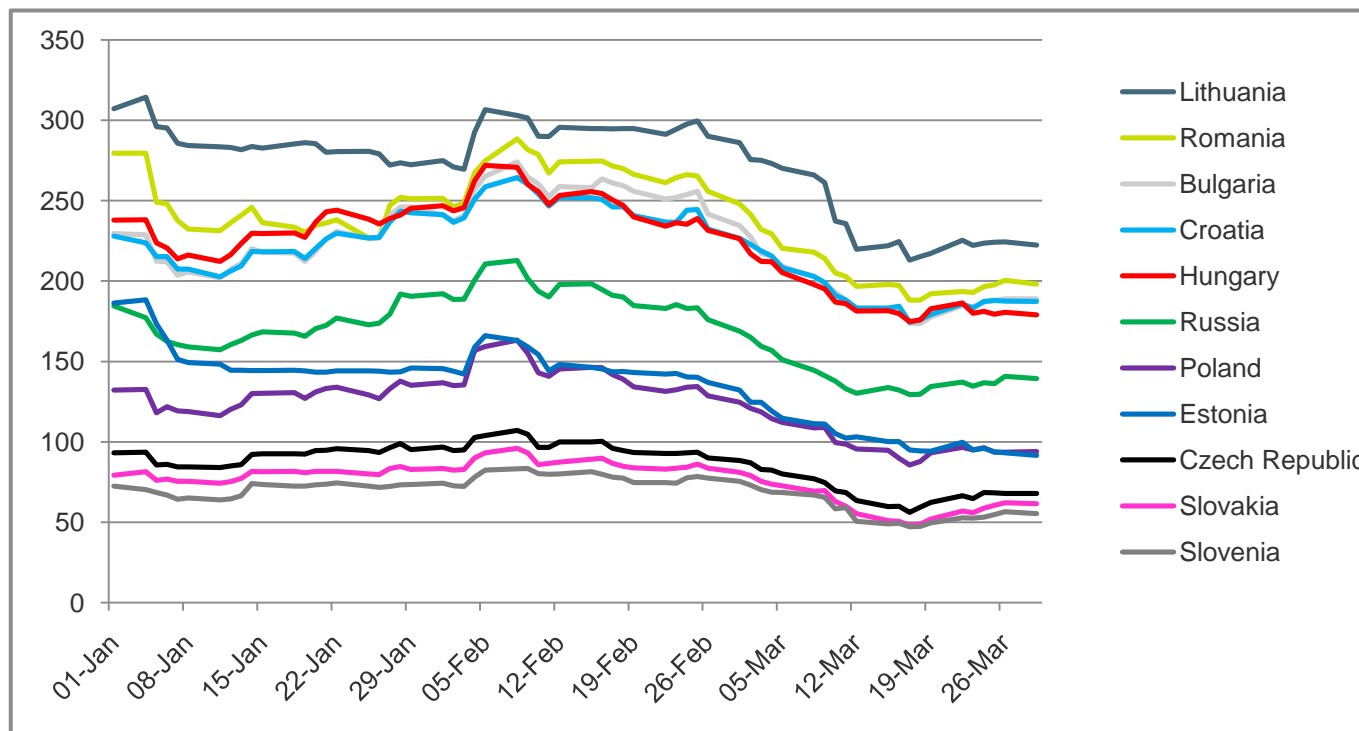
Regional Focus: Western Europe



Notes

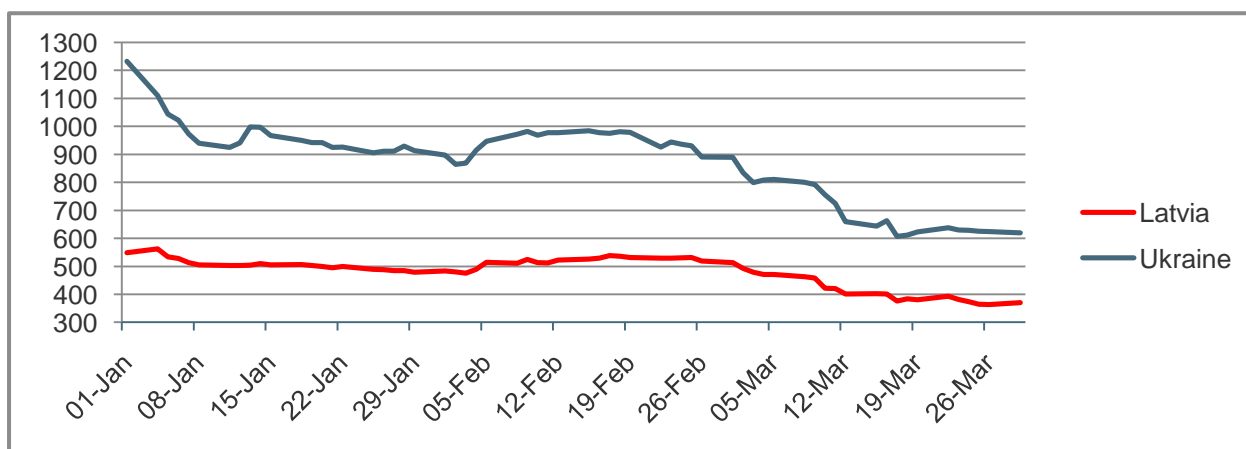
- CDS for Spain and Italy continue to track each other closely
- Greece is now viewed as being in a completely different risk bucket to all other sovereign CDS in the region, despite successful bond placements.
- Fears of the Greek credit crisis causing contagion amongst other Eurozone members was proven unfounded
- Some of the worst performers have come from Western Europe this quarter - France wider by 46.7%, Germany wider by 20.1% and Greece wider by 18%
- The worst performing sovereign credit globally has been Portugal – wider by 52.3% over the quarter and downgraded by Fitch in late March to AA-

Regional Focus: Emerging Europe

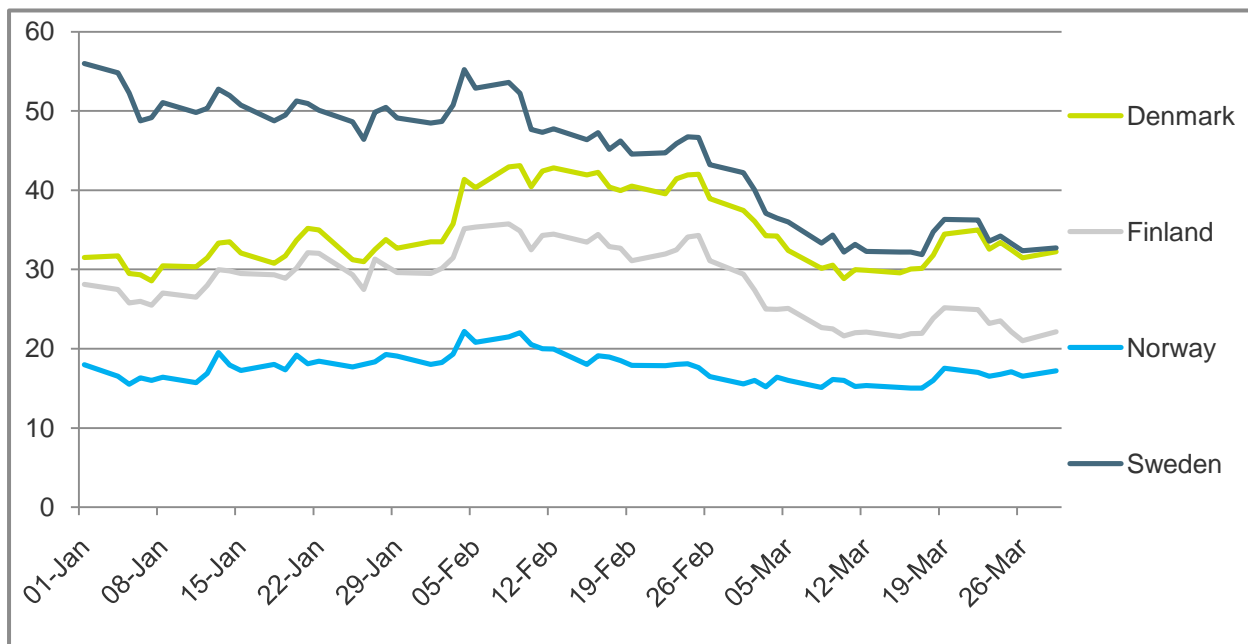


Notes

- Emerging Europe has been one of the best performing regions over the quarter. Estonia has seen the greatest improvement globally, tighter by 50.9%, closely followed by Ukraine tighter by 49.3% and Latvia tighter by 33.3%
- The significant tightening in Ukraine indicates less political and economic uncertainty since the election of the new government
- Ukraine has also benefited from IMF assistance and series of economic reforms
- Hungary, Bulgaria and Romania have performed similarly this quarter, as have Slovakia, Slovenia and the Czech Republic

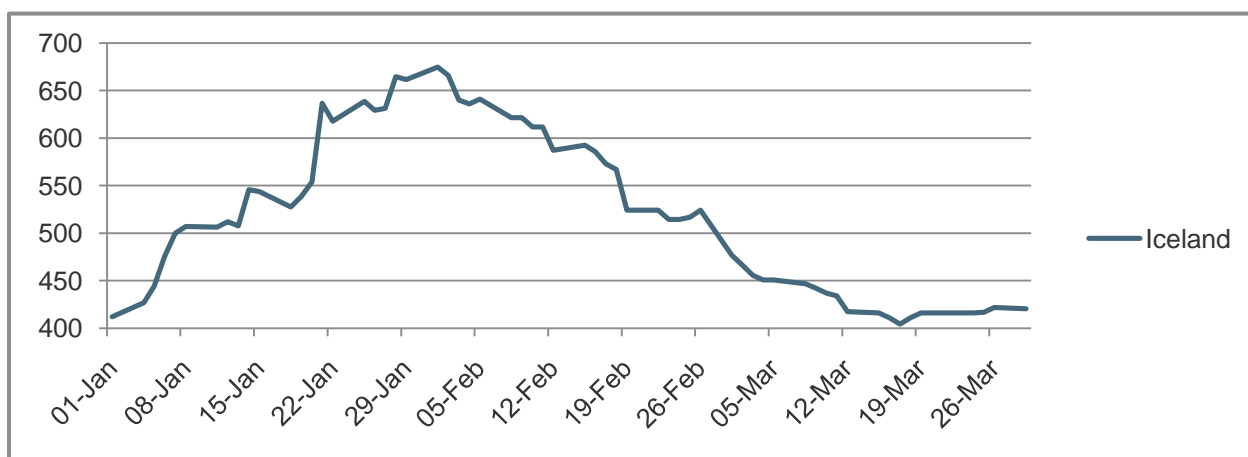


Regional Focus: Scandinavia & The Nordic Region

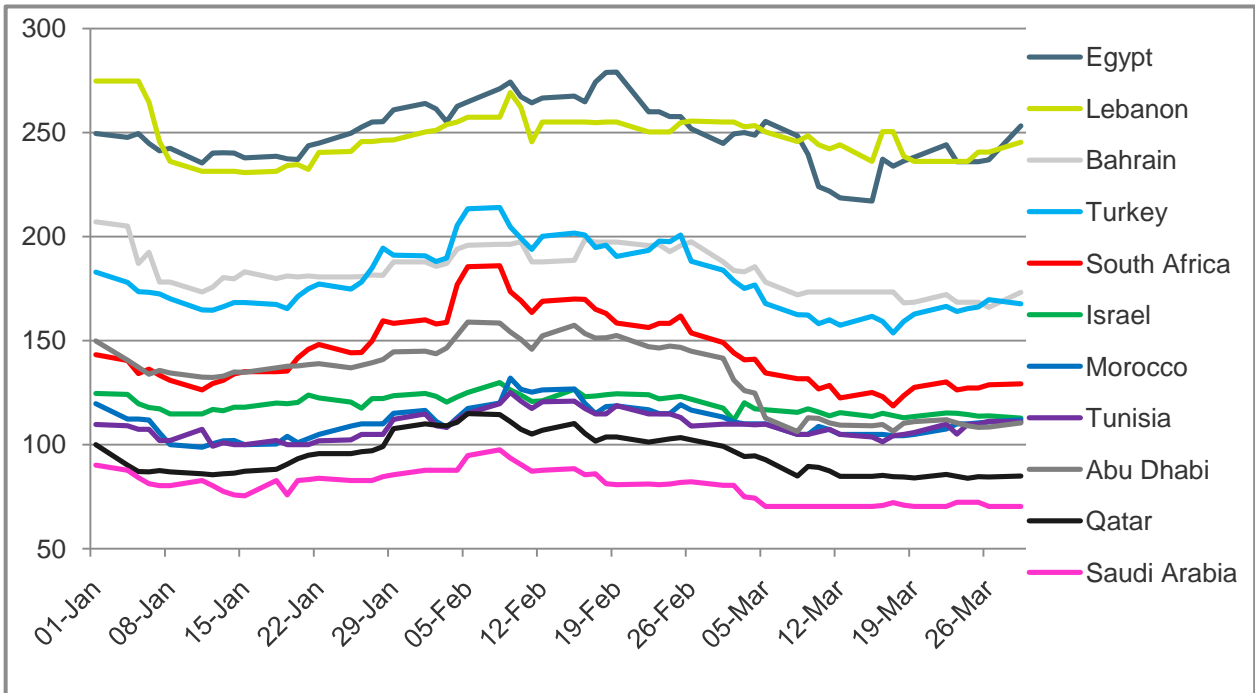


Notes

- The Nordic region remains a safe haven for sovereign credit investors
- Sweden has been the best performer in the region, tighter by 40.5% over the quarter
- Denmark has underperformed its regional peers, widening by 7.7% this quarter

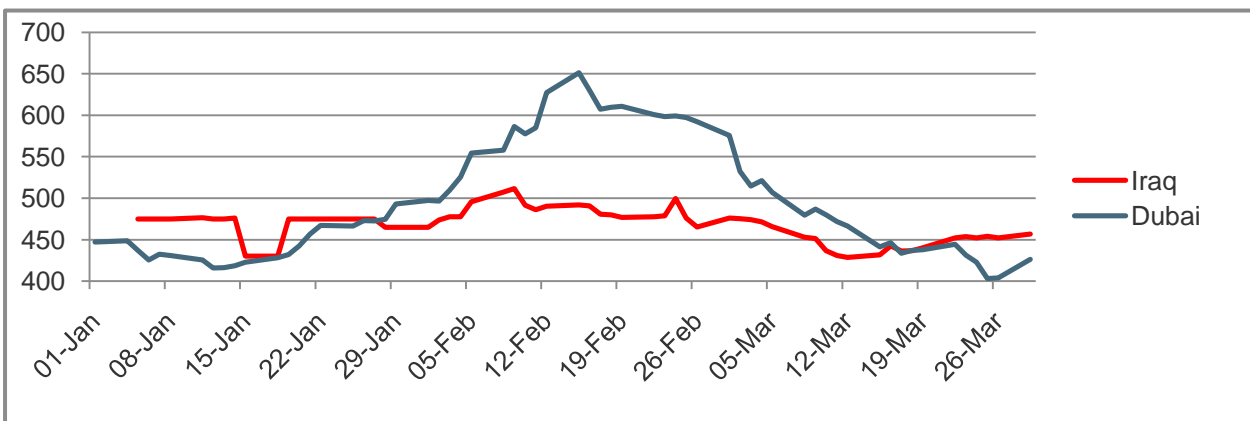


Regional Focus: Middle East & North Africa

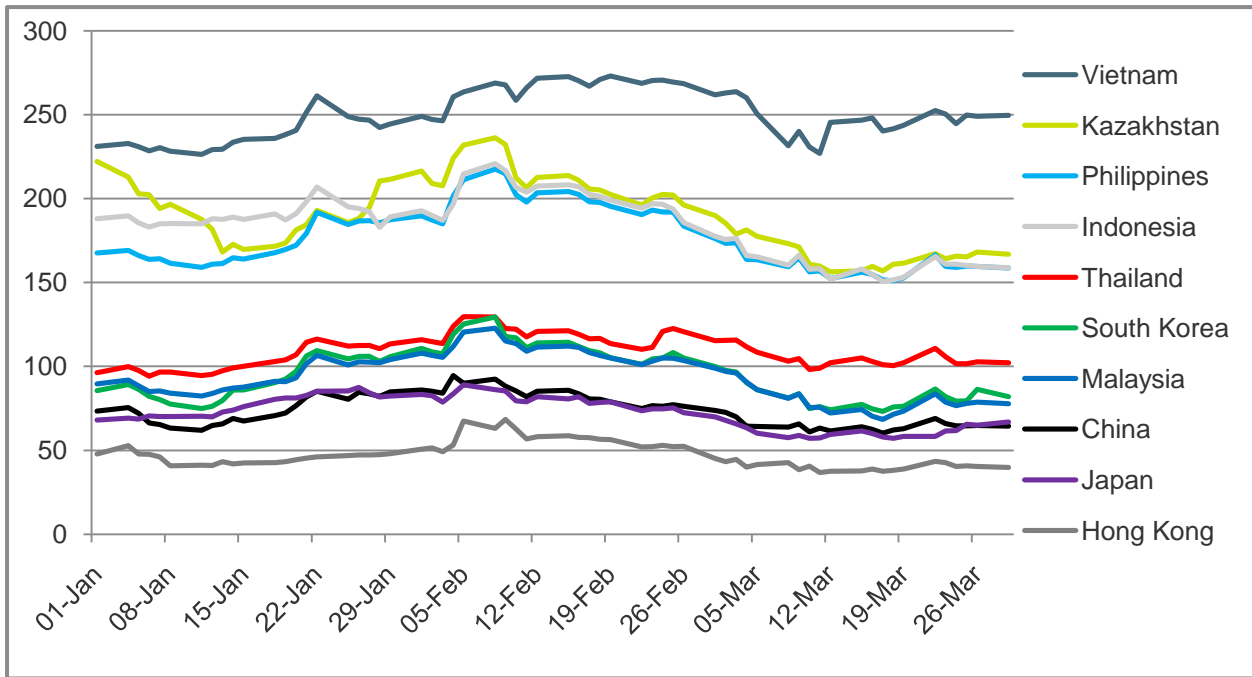


Notes

- All eyes have been on Dubai this quarter as it attempted to restructure its debt. A heightened period of uncertainty drove Dubai's spreads to record levels in February. An announced restructuring towards the end of March helped restore some confidence.
- Morocco and Tunisia have been closely tracking one another this quarter
- The previously noted relationship between Saudi Arabia and Qatar has broken down this quarter
- The worst performer in the region has been Egypt, wider by 0.8%. Abu Dhabi has outperformed regional peers, tightening by 25%
- Since early January, we have seen sufficient liquidity around the Iraqi CDS to provide pricing. Unsurprisingly, it is viewed as the riskiest debt in the region.
- The availability of CDS pricing on Iraq may indicate greater regional stability going forwards

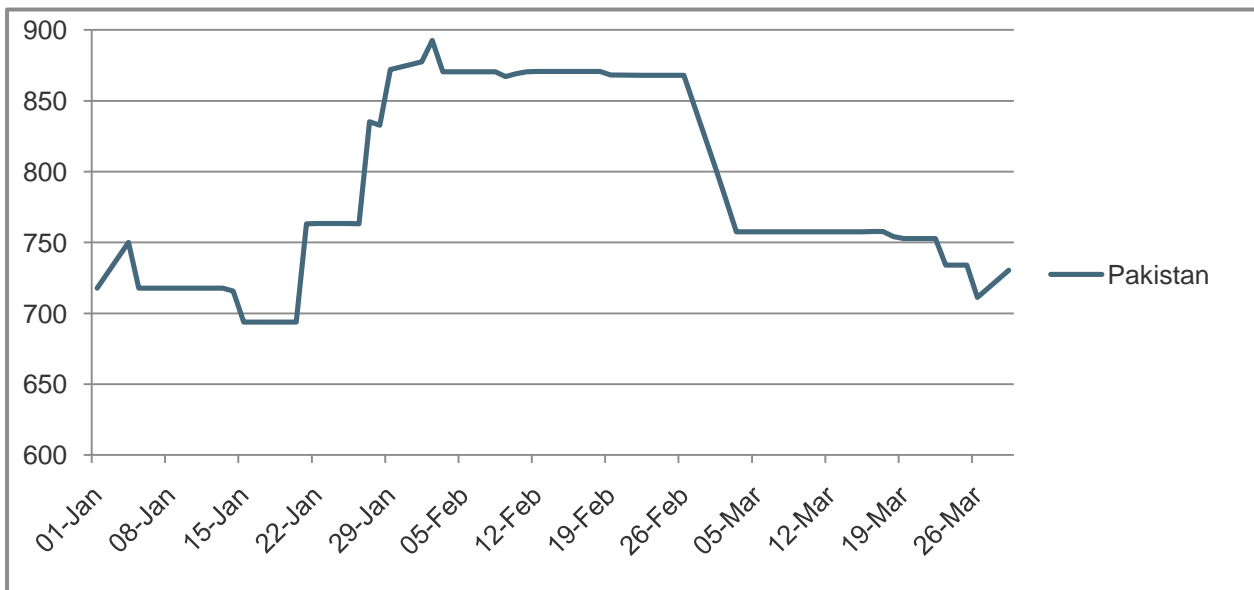


Regional Focus: Asia

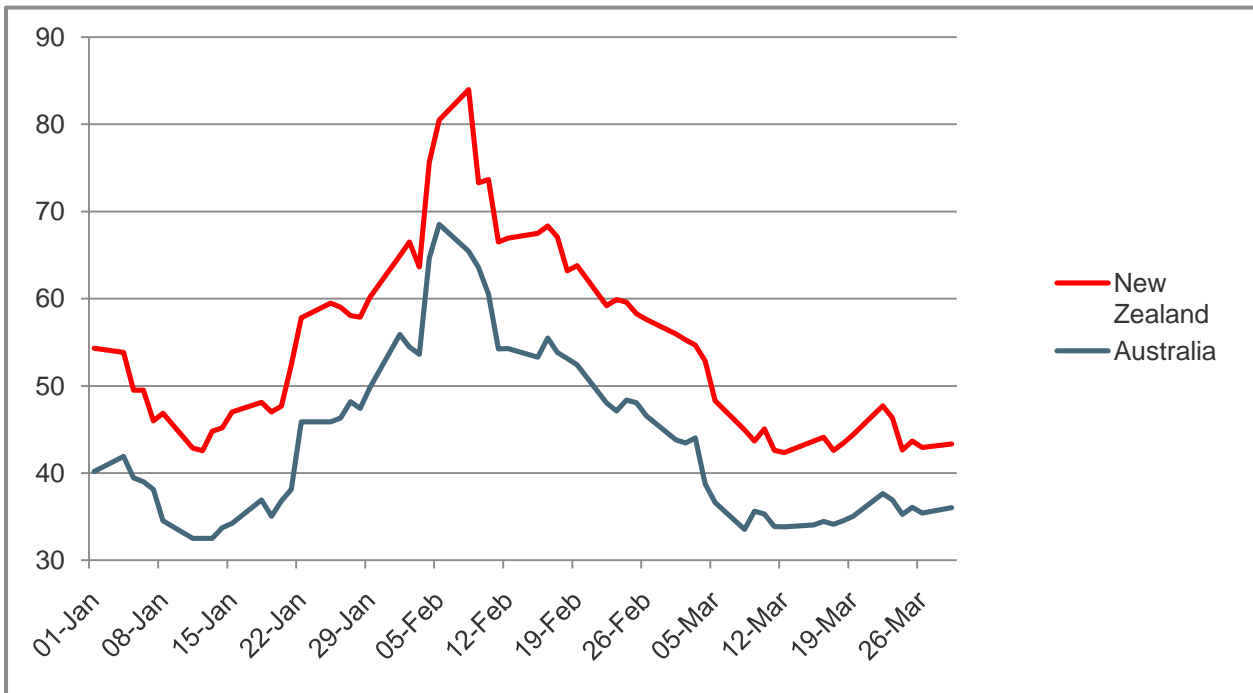


Notes

- Tight correlation between Indonesia and the Philippines, South Korea and Malaysia
- The worst performer in the region has been Pakistan widening by 10.3%.
- The best performer has been Kazakhstan, tighter by 23.9%



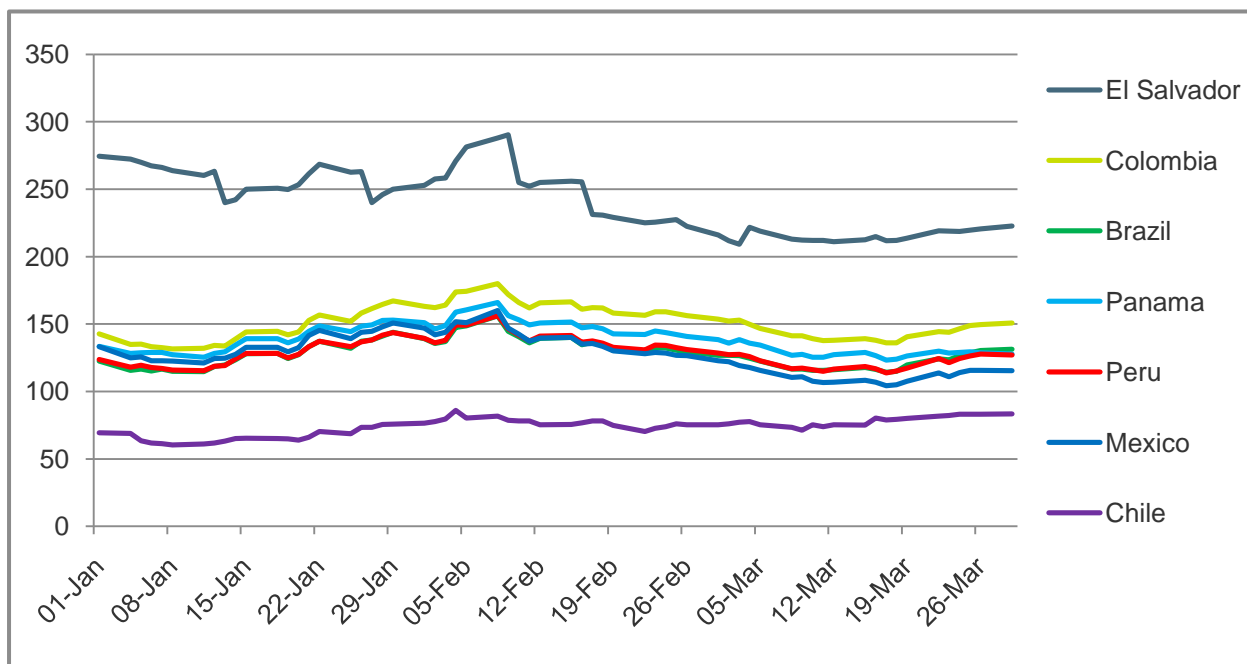
Regional Focus: Australia and New Zealand



Notes

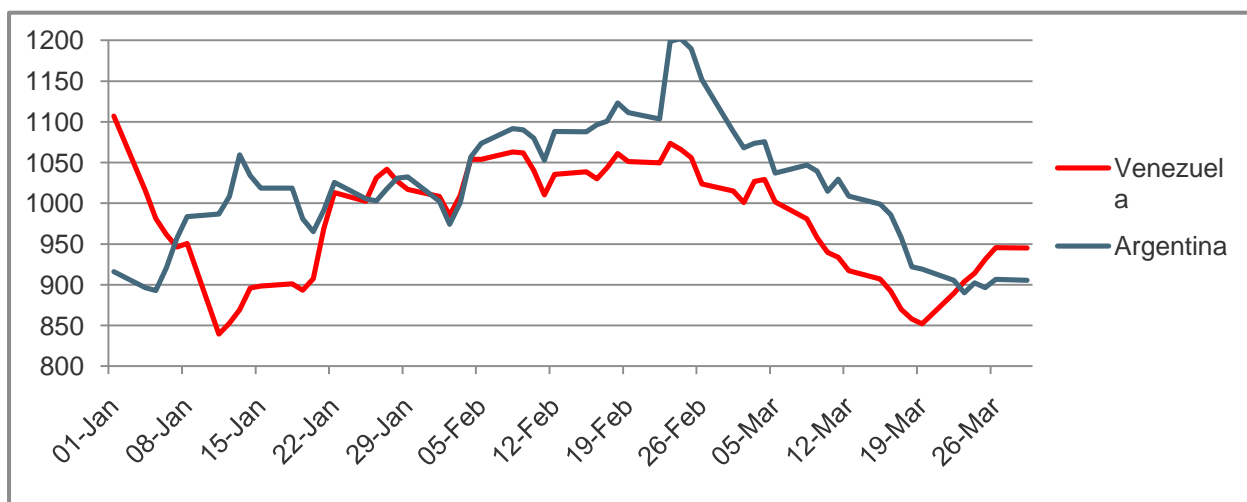
- Australia announced a further interest rate rise, giving off positive signals as to it's economic health
- Strong commodity prices have benefited the Australian economy, delivering continued improvement in the Australian CDS
- Huge rally in the Australian dollar this quarter

Regional Focus: Central and South America



Notes

- Panama, which was one of last quarters' strongest performers has slowed down, in by just 3.9%
- Brazil and Peru remain closely correlated.
- Venezuela has been the regions' best performer- tighter by 14.7%. However, it remains one of the riskiest sovereign credits globally.
- Chile has underperformed other countries in South America, widening by 15.8% - one of the weakest results globally this quarter.
- The close relationship between Colombia and Mexico noted last quarter has started to break down.



Global Ranking by CPD

| Country | CPD (%) | 5yr Mid (bps) | CMA Implied Rating | CMA Implied Rating Q4 |
|------------------------|---------|---------------|--------------------|-----------------------|
| Venezuela | 48.5% | 944.6 | CMA_ccc+ | CMA_ccc |
| Argentina | 46.0% | 898.4 | CMA_ccc+ | CMA_ccc+ |
| Pakistan | 42.3% | 791.9 | CMA_b- | CMA_b |
| Ukraine | 35.4% | 624.2 | CMA_b | CMA_ccc |
| Iraq | 28.9% | 471.3 | CMA_b+ | New Entry |
| Dubai | 26.6% | 436.1 | CMA_b+ | CMA_b+ |
| Iceland | 23.3% | 386.5 | CMA_bb- | CMA_bb- |
| Latvia | 22.8% | 365.6 | CMA_bb- | CMA_b+ |
| Greece | 25.4% | 335.9 | CMA_bb- | CMA_bb+ |
| Egypt | 16.5% | 251.5 | CMA_bb | CMA_bbb- |
| Vietnam | 16.4% | 248.6 | CMA_bb | CMA_bbb |
| Lebanon | 16.2% | 245.4 | CMA_bb | CMA_bb |
| El Salvador | 15.2% | 230.0 | CMA_bb+ | New Entry |
| Lithuania | 15.0% | 229.1 | CMA_bbb- | CMA_bb- |
| Romania | 13.3% | 200.0 | CMA_bbb | CMA_bb |
| Bulgaria | 13.0% | 193.2 | CMA_bbb | CMA_bbb |
| Croatia | 12.7% | 189.1 | CMA_bbb | CMA_bbb |
| Hungary | 12.2% | 181.5 | CMA_bbb+ | CMA_bbb |
| Bahrain | 11.6% | 170.4 | CMA_bbb+ | CMA_bbb |
| Turkey | 11.5% | 169.4 | CMA_bbb+ | CMA_bbb+ |
| Kazakhstan | 11.5% | 169.0 | CMA_bbb+ | CMA_bbb |
| Indonesia | 10.9% | 158.1 | CMA_a- | CMA_bbb+ |
| Philippines | 10.7% | 157.1 | CMA_a- | CMA_a- |
| Colombia | 10.3% | 150.6 | CMA_a- | CMA_a |
| Russia | 9.8% | 142.1 | CMA_a | CMA_bbb+ |
| Portugal | 11.7% | 139.6 | CMA_bbb+ | CMA_aa+ |
| Ireland | 11.7% | 139.5 | CMA_bbb+ | CMA_bbb+ |
| South Africa | 9.1% | 133.0 | CMA_a+ | CMA_a |
| Brazil | 9.0% | 131.0 | CMA_a+ | CMA_aa- |
| Peru | 8.9% | 128.6 | CMA_a+ | CMA_aa- |
| Panama | 8.9% | 128.2 | CMA_a+ | CMA_a+ |
| Mexico | 8.1% | 116.0 | CMA_aa | CMA_a |
| Spain | 9.8% | 115.6 | CMA_a | CMA_aa |
| Italy | 9.6% | 113.7 | CMA_a | CMA_aa |
| Israel | 7.9% | 113.1 | CMA_aa | CMA_aa |
| Abu Dhabi | 7.7% | 112.3 | CMA_aa | CMA_a- |
| Morocco | 7.5% | 109.6 | CMA_aa | CMA_aa |
| Tunisia (Central Bank) | 7.3% | 104.9 | CMA_aa | CMA_aa |
| Thailand | 8.5% | 98.5 | CMA_a+ | CMA_aa |
| Poland | 6.7% | 96.5 | CMA_aa | CMA_aa |
| Estonia | 6.3% | 91.4 | CMA_aa | CMA_bbb+ |
| Qatar | 6.0% | 85.7 | CMA_aa+ | CMA_aa |
| South Korea | 7.0% | 80.8 | CMA_aa | CMA_aa |
| Chile | 5.6% | 80.2 | CMA_aa+ | CMA_aa+ |
| Malaysia | 6.8% | 77.2 | CMA_aa | CMA_aa+ |

| | | | | |
|----------------|------|------|---------|---------|
| United Kingdom | 6.7% | 77.0 | CMA_aa | CMA_aa |
| Saudi Arabia | 4.9% | 70.2 | CMA_aa+ | CMA_aa |
| Czech Republic | 4.8% | 68.6 | CMA_aa+ | CMA_aa |
| Japan | 6.0% | 67.3 | CMA_aa+ | CMA_aa+ |
| China | 5.6% | 63.3 | CMA_aa+ | CMA_aa |
| Slovakia | 5.5% | 62.7 | CMA_aa+ | CMA_aa+ |
| Slovenia | 5.0% | 56.7 | CMA_aa+ | CMA_aa+ |
| Belgium | 4.9% | 55.7 | CMA_aa+ | CMA_aa+ |
| Austria | 4.9% | 55.3 | CMA_aa+ | CMA_aa+ |
| France | 4.2% | 47.1 | CMA_aaa | CMA_aaa |
| New Zealand | 3.9% | 44.1 | CMA_aaa | CMA_aa+ |
| USA | 3.6% | 41.1 | CMA_aaa | CMA_aaa |
| Hong Kong | 3.4% | 39.1 | CMA_aaa | CMA_aa+ |
| Switzerland | 3.4% | 37.8 | CMA_aaa | CMA_aa+ |
| Australia | 3.3% | 37.1 | CMA_aaa | CMA_aaa |
| Netherlands | 3.0% | 34.2 | CMA_aaa | CMA_aaa |
| Denmark | 3.0% | 33.9 | CMA_aaa | CMA_aaa |
| Sweden | 3.0% | 33.3 | CMA_aaa | CMA_aa+ |
| Germany | 2.8% | 31.6 | CMA_aaa | CMA_aaa |
| Finland | 2.1% | 23.0 | CMA_aaa | CMA_aaa |
| Norway | 1.6% | 17.3 | CMA_aaa | CMA_aaa |

About CMA & Contact Details

Credit Market Analysis (CMA) combines independent credit market pricing data with innovative technology solutions to deliver unprecedented transparency to OTC markets.

Over 400 banks, hedge funds, asset managers, fund administrators, audit groups and researchers across the world rely on CMA's products and services to enhance their trading, risk management and portfolio valuation activities.

CMA is a wholly owned subsidiary of CME Group (www.cmegroup.com), the largest and most diverse derivatives exchange in the world.

CMA Datavision is the world's deepest and most accurate set of credit market price verification data. Sourced from the front office of over 30 buy-side firms, CMA Datavision provides pricing plus risk and liquidity metrics for 1,500 single name CDS, indices and index tranches. Data is available intra-day and is also published daily at 5pm local time in London, New York and Tokyo. You can access CMA data via the Bloomberg Professional® service: CMA<GO>

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